

## Message Text

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21

ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00 XMB-02

FRB-03 CIAE-00 INR-07 NSAE-00 /064 W

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R 040920Z AUG 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6127

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E.O. 11652: N/A

TAGS: EINV, EFIN, RP

SUBJECT: GOP MAY TAX PROFIT REMITTANCES BY FOREIGN BRANCHES

1. LOCAL NEWSPAPER ACCOUNTS REFLECT THAT BUREAU OF INTERNAL REVENUE (BIR) HAS RECOMMENDED TO NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY (NEDA) THAT PROFITS REMITTED ABROAD BY LOCAL BRANCHES OF FOREIGN CORPORATIONS BE TAXED AT 20 PERCENT. PRESENT LAW PROVIDES THAT BRANCHES ARE TAXED ONLY ON NET INCOME IN PHILIPPINES, AND NOT RPT NOT ON PROFITS REMITTED OUTSIDE COUNTRY. DIVIDENDS REMITTED BY SUBSIDIARIES, ON THE OTHER HAND, ARE TAXED AT 35 PERCENT, IN ADDITION TO TAX ON NET INCOME OF SUBSIDIARY.

2. INTERNAL REVENUE COMMISSIONER MISAEL P. VERA CONFIRMED TO EMBOFF THAT BIR HAS MADE RECOMMENDATION TO TAX REMITTANCES "UP TO 20 PERCENT", STATING IT WAS FOR PURPOSE OF MAKING TREATMENT OF BRANCHES AND SUBSIDIARIES MORE EQUIVALENT. VERA SAID THAT ASIDE FROM REVENUE-PRODUCING ASPECTS OF MOVE, SUBSIDIARIES ARE PREFERABLE TO BRANCHES, SINCE SUBS HAVE GREATER DEGREE OF LOCAL IDENTIFICATION. HE THOUGHT CONDITIONS WHICH ORIGINALLY GAVE RISE TO SPECIAL TREATMENT OF BRANCHES HAVE CHANGEDN ESPECIALLY WITH DEVELOPMENT OF TAX-FREE LIMITED OFFICIAL USE

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PRECESING ZONES AT BATAAN AND IN MINDANAO. VERA SAID

THIS TAX ON BRANCH REMITTANCES WAS ORIGINALLY TO HAVE BEEN INCLUDED IN TAX REFORM OF 1973N BUT THAT PRESIDENT HAD REJECTED IT AT THAT TIME. HE SAID FINANCE SECRETARY VIRATA IS IN FAVOR OF TAX, AND STRONGLY IMPLIED THAT HE EXPECTS NEDA AND THE PRESIDENT TO APPROVE IN TIME TO BE APPLIED FROM JANUARY 1, 1976.

3. COMMENTS: THIS ANNOUNCEMENT COINCIDES WITH ANNOUNCEMENT OF BIR PROPOSAL ON NEW WITHHOLDING TAXES ON DIVIDENDS, ROYALTIES AND COMMISSIONS, AND COMES AT TIME WHEN BIR APPARENTLY BEING PRESSED FOR GREATER COLLECTIONS. ASSUMING THAT BIR GETS GREEN LIGHT TO CLOSE LOOPHOLE ON BRANCH REMITTANCES, MOTIVATION NO DOUBT TAKES NOTE OF PENDING US/RP TAX TALKS, BUT PROBABLY ARISES EQUALLY FROM DESIRE TO TAP REVENUE SOURCE AND TO PUT AN END TO ANOMALOUS PROVISION WHICH IS SEEN AS NO LONGER NECESSARY TO DEVELOPMENT EFFORT AND WHICH IS SOMEWHAT INCONSISTENT WITH STIRRINGS OF PHILIPPINE ECONOMIC NATIONALISM. END COMMENT.  
SULLIVAN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TAX LAW, MULTINATIONAL CORPORATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 AUG 1975  
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**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** greeneet  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**TAGS:** EINV, EFIN, RP  
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